

Interview with a Fed President – Boston

What is unique about your District?

The First Federal Reserve District is a very interesting place. It includes the six New England states: Connecticut (with the exception of its southernmost county, which belongs to the Second District), Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. These states share a common bond of colonial history and Yankee traditions, and remain a beacon for immigrants from around the world. While the region encompasses considerable geographic diversity—from mountains, to seashore, woodlands, and urban areas—the small, densely populated states of the First District also have much in common from an economic perspective.

New England's wealth is in its intellectual capital. The region has no major natural resources--like oil--and no wide open space for large farms. Its residents, however, are more highly educated than those of any other region of the country and the region abounds in colleges and universities--over 40 in the Boston area alone. In a recent poll, New England opinion leaders said that the area is epitomized by its educational institutions—second only to history and traditions and ahead of influences such as climate and geography. This concentration of highly educated people and world-class educational institutions in a small geographic area has created an economy in which human capital increasingly substitutes for physical capital—and in which external economies from shared inputs and knowledge spillovers--that is, the mutual benefit of just “being there” together--are more important than low-cost production.

The New England economy has a long-standing tradition of reinventing itself as industries and technologies come and go. New industries begin here, mature, and then relocate to areas in which both costs and, perhaps, also the willingness to take risks through innovation are lower. In days gone by, the region was the national leader in shoe and textile manufacturing; now it is known for its prominence in the areas of information and communication technologies, medical-related research and manufacturing, and money management.

How did you become a Bank President? What background do you have for the job?

I'm what you might call a Federal Reserve "lifer." I've worked in the System since I graduated from college in 1968 with a degree in political science. Over the years since then, I've worked in literally every area of Reserve Bank operations and policy-setting—from payments and securities, to bank supervision, to technology and strategic planning, and now to this job with its central focus on monetary policy. That is one of the most fascinating things about a Reserve Bank—so many different, and important, things are going on simultaneously that the job is ever-changing, and rewarding. My graduate degree is an MBA with concentrations in accounting and economics, so, like some other Presidents and Governors, I am not a Ph.D. economist. But, knowing how things work—and getting them to function in times of crisis and change, which is a specialty of mine—provides an important background for my contribution to Bank management and System policy-making. Moreover, as one of my predecessors at the Boston Fed—Frank Morris—said to me when I became president in 1994, the job of being a Reserve Bank President is so varied, "everybody has to do some cramming" to get it right. That continual intellectual challenge is what I love about the job.

What does it mean when the news media refers to a Reserve President as a "hawk," "dove," or "moderate?"

Personally, I think these simplistic terms do a great disservice when they are used by the media to try to characterize a member of the Federal Open Market Committee. They are used to try to describe how aggressively members of the FOMC may view the need to fight inflation at any given moment in time. What they do is create a sense of distinction where there may be very little difference. I believe both growth and inflation are key issues all the time, and I doubt my colleagues differ much no matter how the media characterize us.

In my view, Congress has charged this national's central bank—the Federal Reserve System—with conducting monetary policy in such a way as to achieve the highest, sustainable long-run rate of economic growth for this country, and thus, the highest possible living standards. A low rate of inflationary growth is critical to that end; low inflation creates the environment necessary to encourage long-term planning and

investment in productive activities. Low inflation is the one enduring contribution of monetary policy—central banks can't directly affect employment or real growth over the long term, but they can make the economic climate conducive to job creation and enhanced productivity. Thus, over the long run, low inflation is not only consistent with optimum rates of growth, I believe it is a key to that growth.

In the short run, some see a trade-off between fighting inflation and supporting growth; that is, taking steps to rein in inflation with higher interest rates slows growth and vice versa. Perhaps, but this short-run dynamic should be understood in the longer-run context. I believe monetary policy works best when it is focused on guiding the economy out of short-run imbalances. For example, rising inflation generally reflects stresses within an economy that are not sustainable over time. Raising interest rates to curb inflation helps to bring the economy back towards a more sustainable rate of growth; that is, growth without the imbalances brought about by sustained pressures on resources. There can be debates, for sure, on how far and how fast to move policy, on what measures best reflect imbalances, and on a whole host of other things but, in my view, even in the short run, sustainable rates of growth and low inflation are compatible goals.

What do you like most about your job?

One of the best parts of my job is the constant preparation for contributing to the discussion at the FOMC meetings. This might sound dull, but it isn't. The way I do this is to be involved with key economic sectors in my District as much as I can—through meetings of a variety of groups and councils, speeches, surveys, interactions with business and civic leaders, and keeping up with the District as much as I can. This is a vital role that only I as a regional Reserve Bank president can play—making sure the issues in my District are known and can be functioned into policy making appropriately. Obviously, the FOMC makes monetary policy for the nation as a whole—no one region can or should dominate. But every now and then the experiences of one region—the downturn in auto and steel manufacturing in the Fourth District (Cleveland) at the end of 2000, for example—inform all of us about risks and uncertainties. That's when the value of the regional Reserve Bank, and its President, really comes into play.

The other best part of my job is the people who work at the Federal Reserve Bank of Boston. They are committed, involved, hard-working and great people to know and work with. In so many ways, big and small—from clearing checks to managing a great building to doing first-class research and bank supervision—they make me so proud to be their President.